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SUBJECT: U.S. GETS BUSY SIGNAL FROM TAJIK TELECOM

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11. SUMMARY: Despite the striking success of Indigo, a U.S.-Tajik cellular service joint venture, China has taken the lead in developing Tajikistan's telecom sector. Meetings with Tajikistan's key telecom decision makers highlighted the growing role of China and the European Bank for Reconstruction and Development (EBRD), the lack of real regulation and the pitfalls of letting the government control international connectivity. The United States can play an important role in providing technical guidance and assistance, but may end up taking a back seat to other investors in the infrastructure projects. END SUMMARY.

CHINA TAKING LEAD IN TELECOM

12. "Things have changed a lot in telecom in the last sixth months," Communications Minister Said Zuvaydov told PolOff and post's Commerce/BISNIS representative during a meeting with Trade and Development Agency (TDA) telecom consultants February 128. Zuvaydov did not mince words or hide his disappointment. "You [the United States] talked with me a year ago, and again six months ago with visitors from Washington. We were ready but there was nothing from the U.S." While the Tajik telecom sector is already moving forward without major U.S. assistance, there is a U.S. presence. Indigo Tajikistan and Indigo Somoncom, joint ventures with Arlington, VA-based MCT Corp, are examples of how American companies can operate successfully and profitably in Tajikistan.

13. Zuvaydov reported that \$70 million in assistance from the Shanghai Cooperation Organization (SCO) would go towards his ministry's top priorities: raising the quality of the fixed lines; satellite connections; video conferencing capabilities and e-government.

¶4. Fixed lines are not always appealing to investors, noted Zuvaydov, but necessary to help Tajikistan's economic development and a government priority. According to Jafar Rustamov, head of Tajik Telecom's administration, the company committed to increase fixed line penetration 200% by adding 600,000 connections to the existing 300,000 fixed line subscribers, and to start implementing a National Fiber Optic Network by the end of the year, using Chinese technology and equipment in both cases. In a March 1 meeting, Rustamov described Chinese vendor Hua-Wei's fiber optic project having three phases: Phase I: installation of the backbone connections with fiber optic cables at all 74 administrative centers and connection to the Trans-Asia-Europe fiber optic highway at the Tajik-Uzbek border (scheduled to be complete by late 2006); Phase II: expansion to rural areas from administrative centers, and connection to Trans-Asia-Europe fiber optic highway at the Tajik-Kyrgyz border; and Phase III: connection of Tajikistan's fiber optic network to Afghanistan and South Asia. The fixed line capacity increase would be achieved through a series of wireless modules, thus bypassing Tajikistan's unreliable Soviet wiring.

¶5. Rustamov was more forthcoming than Zuvaydov, who declined to mention the degree and specifics of Chinese investment in the Tajik telecommunications sector. After Tajikistan proposed the fixed line and fiber optic projects, said Rustamov, a Chinese technical team visited to adjust the technical specifications and brought a Tajik delegation to visit Chinese manufacturing facilities. The contract with Hua-Wei includes a three-year warranty, minimal advance payment and final payment upon expiry of the warranty.

EBRD CONTROL OVER TAJIK TELECOM STRONG~

¶6. Rustamov also described in detail EBRD's influence over Tajik Telecom. As part of a \$10 million loan to Tajik Telecom to create a regulatory body and restructure the company, EBRD

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retained the right to approve all Tajik Telecom transactions exceeding \$500,000. Tajik Telecom will begin loan repayments in October 2006 for ten years. Rustamov had nothing but praise for EBRD, noting its tender experience, technical expertise and work with major European consulting firms have proven very useful for the Tajik side. Rustamov did not think the relationship with EBRD would hinder plans to privatize Tajik Telecom. After a significant capitalization effort, Rustamov said, "We will make Tajik Telecom as big and tasty a pie as possible, and then it will be up to the government to determine how much of that pie to sell to the private sector."

~BUT HAS NOT RESULTED IN INDEPENDENT REGULATION

¶7. EBRD's strong influence in the telecom sector has failed to create an independent body capable of regulating Tajikistan's burgeoning telecom industry, despite a \$2 million grant to the Ministry of Communications to establish such regulation. EBRD's Fernand Pillonel told Post his bank had limited leverage over the Ministry of Communications now that the grant was used up, even though there were no tangible results. Zuvaydov admitted he and his advisor were studying other models of telecom regulations, including those of the United States and Europe, but control still rests with the state-controlled Communications Regulatory Agency, not an independent group.

¶8. Zuvaydov also admitted his plan for a single government-controlled international gateway for Internet service providers may have been inappropriate. (NOTE: In response to his proposal in February, Tajikistan's Cellular Operator's Association, Internet-users' Association and most large telecommunications companies issued swift public statements opposing the measure and asking the government's anti-monopoly authorities to intervene. END NOTE.) Zuvaydov suggested two gateways be established in Tajikistan, one government-run, and one commercial.

WHAT NEXT?

¶9. Tajik Telecom introduced a Next Generation Network technology March 1 (not without some interruption to telephone service in Dushanbe) and launched its own mobile service in February. There are seven mobile service providers, and nine Internet providers, with the numbers growing every day.

¶10. However, opportunities in overall infrastructure projects may be closing. China has locked up the National Fiber Optic Network, and several Russian companies are in negotiations to form partnerships with existing Tajik companies. When Tajik Telecom privatizes, Rustamov's pie may likely go to those who have cultivated good connections with the top level of the government and who have already invested their own technology in Tajikistan's telecom infrastructure, especially the fixed line network.

¶11. COMMENT: If the United States wants to remain relevant in Tajikistan's telecom sector, our best chance now is through technical assistance. By helping establish a truly independently regulated telecom industry, we can create the conditions that will naturally attract U.S. and international investors. We will also establish our credibility in telecom and influence the handful of decision makers about the advantages of working within a U.S. business model. END COMMENT.
HOAGLAND